

TAX NEWS

On 9 July 2015, the House of Representatives enacted into laws a number of significant tax law proposals which have come into effect on 16 July 2015.

1. Income Tax Law

The income tax Law (ITL) has been amended to introduce a Notional Interest Deduction (NID) on equity.

According to the amended Law, companies resident in Cyprus and companies not resident in Cyprus which maintain a permanent establishment in Cyprus are entitled to A NID on equity, which is effectively tax allowable deduction against the taxable profits of the company.

The NID is calculated by multiplying the “new equity” held and used by the business in the carrying on of its activities with the “reference interest rate”.

For the purpose of the Law:

- “Reference interest rate” is the yield of the 10 year government bond of the state in which the new equity is invested plus a 3% premium, having as a minimum rate the 10 year Cyprus government bond yield as at 31 December of the tax year preceding the relevant tax year, plus a 3% premium.
- “New Equity “is the equity introduced in the business on or after 1 January 2015 in the form of issued share capital share premium (provided that these are fully paid) and does not include amounts that have been capitalized and which were derived from revaluation of movable or immovable property.

It is provided that any new equity that has been introduced in a company on or after 1 January 2015 which directly/indirectly emanates from reserves existing as at 31 December 2014 but does not relate to the financing of new assets used in the business, is not deemed as new equity.

The NID granted on new equity cannot exceed 80% of the taxable profit as calculated before allowing the NID. It is further provided that in the case of a loss such deduction is not granted.

A company may in any given tax year elect to claim the whole or part of the amount if the NID available.

2. Special Contribution for Defence Law

The Special Contribution for Defence Law (SDC) Law is amended by introducing the new term of “domicile”.

For the purposes of the SDC Law, an individual has a “domicile in the Republic” if he/she has a domicile of origin in Cyprus based on the provisions of the Wills and Succession Law (WSL) (i.e. domicile of the father at the time of birth).

It is provided that regardless of the domicile of origin, any individual who is resident in Cyprus, as defined in accordance with the provisions of the ITL for at least 17 out of the last 20 years prior to the relevant tax year, will be deemed domiciles in Cyprus for the purposes of this Law.

The new term is introduced in an effort to attract expatriates and high net worth individuals to reside in Cyprus. Under the “non-domicile” rules, Cyprus tax resident individuals who are not domiciled in Cyprus are exempt from SDC on dividend, interest and rental income. Hence, the amendment makes the holding of investments in dividend/interest earning assets e.g. shares, bonds by non-Cyprus domiciled individuals more attractive.

3. Capital Gains Tax Law

The Capital Gains Tax (CGT) Law has been amended to provide that gains from the disposal of Immovable property consisting of land or land and buildings are exempt from CGT, provided that:

- i. It is acquired from the date the amended Law comes into effect (16 July 2015) until 31 December 2016.
- ii. It is acquired through purchase or purchase agreement and not through an exchange or donation, at market value, from a non-related party.

The exemption does not apply to disposals of immovable property that has been acquired under foreclosure procedures.

4. Department of Lands and Surveys (Levy and Duties) Law

As per the amended Law, for any transfer of immovable property as well as the registration of any lease/sublease until 31 December 2016, a 50% reduction in immovable property transfer fees and lease/sublease registration fees is provided.

The above reduction does not apply to transfers of immovable property that have been acquired under foreclosure procedures.